

<p align="center">2003-2004 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund

In November 2000, San José voters approved a \$212 million Library bond to improve the branch library system over a ten-year period. These funds designated in the Library Bond program will support the reconstruction or replacement of 14 existing branches, and the construction of six additional branches in unserved neighborhoods.

***Branch Library
Bond Projects
Fund***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 20,488	\$ 7,265	\$ (13,223)	(64.5%)
<i>Expenditure</i>	61,789	51,254	10,535	17.0%
<i>Fund Balance (est. *)</i>	10,770	1,339	(9,431)	(87.6%)

General Obligation Bond proceeds (G.O. Bonds) and interest earnings provide the funding for this fund. The negative revenue variance of \$13.2 million is the result of lower than anticipated bond proceeds (\$14.0 million), partially offset by higher interest earnings (\$815,000) on the 2001-2002 and 2002-2003 bond proceeds. Revenue from G.O. Bonds totaling \$20.4 million was budgeted in 2003-2004. Due to the timing of the bond sale, however, the bond proceeds were recognized in July 2004, after the close of the 2003-2004 fiscal year. Because of this change in the when the bonds were issued, this fund would have ended the year with a negative ending fund balance. To avoid a negative fund balance however, a short-term loan in the amount of \$6,450,000 was approved by the City Council from the Sanitary Sewer Connection Fee Fund at the end of 2003-2004. This loan was repaid at the beginning of 2004-2005 when the Library bond proceeds were received.

Unexpended project funds produced the \$10.5 million positive variance in budgeted program expenditures. The Berryessa Branch project (\$1.8 million), Almaden Branch project (\$1.5 million), Hillview Branch project (\$1.3 million), Alum Rock Branch project (\$1.1 million), Tully Community Branch project (\$1.1 million), and Land Acquisition project (\$1.1 million) all generated substantive savings. The City Council awarded the Berryessa Branch project in February 2003, however due to the contractor failing to perform various aspects of its obligations under the construction contract, the contract was terminated in March 2004. While another contractor has been hired for this project and construction has resumed, the branch will now be completed later than originally anticipated. The Land Acquisition project was delayed due to

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund (Cont'd.)

difficulty in locating a site for the new Southeast Branch. Project savings for the Almaden, Alum Rock, Hillview and Tully Community Branch projects are due to lower than estimated project management costs. The Almaden, Alum Rock and Tully Branch projects also generated savings due to unused project contingency allocations. The Budget Office and CIP Action Team allocations in this fund were over-expended at year-end and require ratification due to the redistribution of these costs during the year-end close process. The reallocation of these costs was required to more accurately distribute costs. On an overall basis, the expenditures of these two units were actually under budget.

With the exception of Program Management – Library Bond Projects and Vineland Branch projects, any unexpended funds have been or will be rebudgeted to 2004-2005 to ensure adequate funding to complete the projects. The majority of these savings were anticipated and rebudgeted to 2004-2005, with the remaining balance recommended for rebudget as part of this document.

The 2003-2004 ending fund balance is \$9.4 million lower than the estimate used in the development of the 2004-2005 Adopted Capital Budget. This variance is largely due to lower than anticipated revenues, due to the bond sale timing (\$10.3 million), partially offset by lower than estimated expenditures (\$874,000). This variance will be entirely offset by the modification of the 2004-2005 Capital Budget to reflect the receipt of bond proceeds in 2004-2005, rather than in 2003-2004 as discussed above.